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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 H-01 INR-10 L-03
NSAE-00 PA-01 SP-02 SS-15 NSCE-00 SSO-00 ICAE-00
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O R 311720Z JUL 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 6514
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION USNATO
DIA WASH DC
USNMR SHAPE BRUSSELS
COMUSFORAZ
AMEMBASSY ATHENS
AMEMBASSY ANKARA
AMEMBASSY THE HAGUE
AMEMBASSY OSLO
AMEMBASSY ROME
AMEMBASSY BRUSSELS
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 5656

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E.O. 11652: GDS
TAGS: PINT PEPR PO US ECON
SUBJ: US FOREIGN POLICY INTERESTS AND THE CURRENT
GOVERNMENT CRISIS

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SUMMARY: THE FALL OF THE PS/CDS SECOND CONSTITUTIONAL
GOVERNMENT AND ATTENDANT POLITICAL UNCERTAINTIES COULD HAVE AN
IMPORTANT IMPACT ON BOTH GENERAL AND SPECIFIC US FOREIGN POLICY
OBJECTIVES. A LAJES AGREEMENT IS LIKELY TO BE FURTHER DE-
LAYED; IMPLEMENTATION OF THE GOP-IMF AGREED STABILIZATION PRO-
GRAM MAY BE SLOWED; GOP-EC NEGOTIATIONS COULD BE HAMPERED;
AND PREPARATION OF THE MEDIUM-TERM DEVELOPMENT PLAN

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COULD BE DELAYED FOR SEVERAL MONTHS.
END SUMMARY

1. ALTHOUGH WE BELIEVE A CONSTITUTIONAL SOLUTION TO THE CURRENT CRISIS WILL BE FOUND, MAJOR USG FOREIGN POLICY OBJECTIVES ARE AFFECTED BY THE RECENT RUPTURE OF THE FEBRUARY 1978 PS/CDS ACCORD AND THE FALL OF THE SECOND CONSTITUTIONAL GOVERNMENT.

2. CONSOLIDATION OF STABLE PORTUGUESE DEMOCRACY: THE CURRENT CRISIS AND UNCERTAINTY AFFECTS OUR OVERALL FOREIGN POLICY GOALS BY STRAINING DEVELOPING DEMOCRATIC INSTITUTIONS. PRESIDENT EANES HAS ADHERED CAREFULLY TO CONSTITUTIONAL PROCEDURES, BUT THE FALL OF THE PS/CDS GOVERNMENT HAS FORCED THE POLITICAL PARTIES AND THE PRESIDENT INTO A PERIOD OF HARD BARGAINING OVER A SUCCESSOR GOVERNMENT. THE FAILURE OF THE PS/CDS ACCORD MAKES FUTURE AGREEMENTS AMONG THE DEMOCRATIC PARTIES MORE DIFFICULT. ANY SOLUTION NOT BASED ON THE PRIOR AGREEMENT OF THE PARTIES, E.G. AN IMPOSED PRESIDENTIAL GOVERNMENT, COULD SLOW THE PROCESS OF DEMOCRATIC INSTITUTIONAL BUILDING. EARLY ELECTIONS RISK A PROLONGED DELAY IN ADDRESSING NATIONAL PROBLEMS AND A HIGH ABSTENTION RATE COULD BE INTERPRETED AS A SIGN OF DECREASING POPULAR SUPPORT FOR A STILL FRAGILE DEMOCRATIC PROCESS.

3. LAJES: THE GOVERNMENT CRISIS DIMS PROSPECTS FOR AN EARLY AZORES BASE AGREEMENT. THE CURRENT GOVERNMENT, ACTING AS A CONFIDENTIAL

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CARETAKER, OR ANY SHORT-TERM TRANSITION GOVERNMENT DESIGNED TO PREPARE FOR ELECTIONS IN LATE 1978 OR EARLY 1979 IS UNLIKELY TO MAKE MUCH FORWARD PROGRESS. ON THE OTHER HAND, A THIRD CONSTITUTIONAL GOVERNMENT WITH A FIRM PARLIAMENTARY MAJORITY (EXCLUDING THE COMMUNISTS) COULD PROCEED APACE.

4. IMF NEGOTIATIONS: AN UNSTABLE OR INTERIM SOLUTION WILL MAKE IMPLEMENTATION OF THE IMF AGREEMENT EXTREMELY DIFFICULT. ECONOMIC RESULTS FOR THE FIRST SEVERAL MONTHS OF THIS YEAR INDICATE THAT THE GOVERNMENT WILL HAVE TO ADOPT INCREASINGLY SEVERE CREDIT POLICIES TO ACHIEVE THE IMF-AGREED TARGETS. THOSE POLICIES ARE LIKELY TO AROUSE SHARP CRITICISM AND OPEN OPPOSITION FROM BOTH BUSINESS AND LABOR ORGANIZATIONS. A WEAK OR INTERIM ADMINISTRATIVE GOVERNMENT WOULD HAVE CONSIDERABLE DIFFICULTY RESISTING SUCH PRESSURES. THE FAILURE TO ACHIEVE THE AGREED IMF TARGETS OR TO PREPARE THE DEVELOPMENT PLAN ON SCHEDULE HAS SERIOUS IMPLICATIONS FOR 1979. OUR OWN POLICY AND GOP PROJECTIONS ARE PREDICATED ON GOP-IMF NEGOTIATIONS ON A MULTI-YEAR THIRD AND FOURTH TRANCHE AGREEMENT AND ACCESS TO THE WITTEVEEN FACILITY. WE DOUBT EITHER THE GOP OR THE IMF WOULD BE DISPOSED TO PURSUE SUCH DISCUSSIONS

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IF THE CURRENT AGREEMENT IS NOT FULFILLED AND THE GOP IS UN-
PREPARED TO GIVE CONVINCING COMMITMENTS ON ITS FUTURE POLICIES.
FURTHERMORE, ABSENT ADDITIONAL IMF/GOP AGREEMENTS, PORTUGAL WOULD
PROBABLY BE UNABLE TO OBTAIN SIGNIFICANT NEW CREDITS FROM
WESTERN EUROPEAN COUNTRIES.

5. THE CONFIDENCE FACTOR: THE CURRENT CRISIS RAISES QUESTIONS
IN BUSINESS CIRCLES AS TO THE SYSTEM'S LONG-TERM SURVIVABILITY.
BUSINESSMEN MAY DECIDE TO POSTPONE SIGNIFICANT NEW INVESTMENTS
OR CREDIT OPERATION DECISIONS -- THE PROPOSED $300 MILLION LOAN
FROM PRIVATE OVERSEAS BANKERS, FOR EXAMPLE, COULD BE THE FIRST
CASUALTY. THE GOP HAS NOT YET RECEIVED ANY INDICATION FROM THE
BANKERS THAT THEY WILL CANCEL OR DELAY THIS CREDIT AGREEMENT.
BUT IF THE CURRENT UNCERTAINTY PERSISTS, THE BANKERS WILL
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LIKELY CONSIDER DELAYING FORMAL SIGNATURE OF THE LOAN AGREE-
MENT, WHICH HAD BEEN SCHEDULED FOR AUGUST 10.

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6. MEDIUM-TERM DEVELOPMENT PLANNING: THE MINISTRY OF PLANNING HAD MADE SIGNIFICANT PROGRESS ON THE MEDIUM-TERM PLAN FOR PRESENTATION TO THE NATIONAL ASSEMBLY BY OCTOBER 15. THE MINISTRY HAD THE NECESSARY ECONOMIC DATA AND AUTHORIZATION FROM THE PS/CDS CABINET TO PROCEED WITH DETAILED PROJECTIONS TO BE BASED
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UPON AN ANNUAL REAL GNP GROWTH OF APPROXIMATELY 4 PERCENT. IF THE PRESENT GOVERNMENT CRISIS CONTINUES OR IF A NEW GOVERNMENT IS FORMED SIMPLY TO LAY THE GROUNDWORK FOR EARLY ELECTIONS, IT IS UNLIKELY THAT SIGNIFICANT WORK ON THE PLAN WILL CONTINUE. IF THE CURRENT UNCERTAINTY LASTS FOR MORE THAN ONE OR TWO WEEKS, OR IF THE KEY INDIVIDUALS INVOLVED CHANGE SIGNIFICANTLY, THE GOVERNMENT WILL PROBABLY NOT MEET THE OCTOBER 15 DEADLINE FOR PRESENTATION TO THE ASSEMBLY. IF THE COMPOSITION OF THE GOVERNMENT CHANGES DRASTICALLY AND THE PLAN'S BASIC ASSUMPTIONS ARE RECONSIDERED, PRESENTATION OF A MEDIUM-TERM PLAN COULD BE POSTPONED CONSIDERABLY.

7. EC INTEGRATION NEGOTIATIONS: GOP OFFICIALS RESPONSIBLE FOR EC INTEGRATION NEGOTIATIONS ARE CONTINUING THEIR PREPARATIONS. THEY DO NOT ANTICIPATE THAT THEIR PLANNED DISCUSSIONS WITH THE COMMUNITY IN OCTOBER WILL BE SIGNIFICANTLY AFFECTED UNLESS THE CURRENT SITUATION LASTS INTO SEPTEMBER. A PROMINENT MEMBER OF THE GOP DELEGATION ADMITS, HOWEVER, THAT HIS MEETINGS IN BRUSSELS LAST WEEK WERE HAMPERED BY THE COMMUNITY'S DOUBTS ABOUT THE CURRENT PORTUGUESE POLITICAL SITUATION. HE FEARS THAT CONTINUED EC UNEASINESS COULD STALL FURTHER DISCUSSIONS. IF PRESIDENT EANES WERE TO FORCE A SOLUTION TO THE CURRENT CRISIS TOTALLY AGAINST EITHER PS OR CDS WISHES, MOREOVER, THE SOCIALISTS AND THE CENTER DEMOCRATS ARE CAPABLE OF EXERTING PRESSURE THROUGH THEIR EUROPEAN ALLIES TO SLOW ACTION ON PORTUGAL'S EC APPLICATION.

8. AGRARIAN REFORM: RAPID GOP DECISIONS ON THE AGRICULTURAL SECTOR ARE NEEDED IN ORDER TO ASSURE REASONABLE AGRICULTURAL PRODUCTION NEXT YEAR, PARTICULARLY IN THE AGRARIAN REFORM REGION OF THE ALENTEJO. SHOULD THE PRESENT POLITICAL UNCERTAINTY CON-

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TINUE, HOWEVER, KEY DECISIONS COULD BE DELAYED FOR SEVERAL
MONTHS, PARTICULARLY SINCE THE AGRARIAN REFORM ISSUE WAS A KEY
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FACTOR IN THE PS/CDS RUPTURE.

9. THE FOREGOING IS NOT A PREDICTION OF WHAT WILL
HAPPEN BUT OF WHAT IS LIKELY TO HAPPEN IF THE SOLUTION
TO THE CURRENT CRISIS TAKES SOME FORM OTHER THAN A
GOVERNMENT FIRMLY BASED ON A WORKING PARLIAMENTARY
MAJORITY.
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